THE WALL STREET REFORM AND CONSUMER PROTECTION ACT

Over the course of ten months in 2009, the House Financial Services Committee, chaired by Congressman Barney Frank, passed a series of bills addressing the main causes of the financial crisis. In December, the separate bills were assembled into a single piece of legislation, the Wall Street Reform and Consumer Protection Act.[1]

The bill which was put before the House would create tough new regulations over Wall Street, end taxpayer bailouts, and protect Americans from unscrupulous lending institutions and credit card companies. Specifically, the legislation would:

- Create a Financial Stability Council to monitor large, interconnected firms whose actions could put the greater economy at risk, and to invest that body with the ability to increase oversight of companies which engage in particularly risky behavior.
- Prevent future taxpayer bailouts and protect the economy by creating an orderly system for dissolving giant financial firms when they get into serious trouble.
- Regulate the $600 trillion market for over-the-counter derivatives, the highly-risky financial instruments which greatly increased the dangers posed by over-valued Mortgage-Backed Securities. Force most derivatives to be traded on public exchanges so investors can better evaluate their risk.
- Establish a Consumer Financial Protection Agency in order to protect Americans from the predatory practices which have put their homes and their financial stability at risk.
- Reduce excessive risk-taking by corporate CEO's by giving shareholders the right to an advisory vote on executive compensation packages, thus putting pressure on corporate boards to align the incentives of CEO's with the profitability of their companies.
- Prohibit the most predatory lending practices which take advantage of borrowers. Establish a simple standard for all home loans – institutions must ensure that borrowers can repay the loans they are sold.
- Eliminate a current loophole in which hedge funds -- enormous pools of private capital -- are unregulated. Require funds to register with the Securities and Exchange Commission and be subject to oversight by the Financial Stability Council.
- Strengthen the oversight power of the Securities and Exchange Commission in order to more adequately protect investors.

- Constrain the broad authority of the Office of Comptroller of the Currency, which regulates national banks, to exempt federally chartered banks from state consumer protection laws (including predatory lending laws), and empower state attorneys general and bank supervisors to enforce state laws against banks and thrifts when they violate CFPA regulations and their own state consumer protection laws.

The House met to vote on the financial reform package on December 11th. The vote split along party lines, with the vast majority of Democrats voting in favor of the bill and every Republican, except two who chose not to vote, voting against. The bill passed by a vote of 223 to 202.[2]

The Washington Post called the legislation "the most sweeping overhaul of the nation's financial regulatory system since the Great Depression."[3] The New York Times called it "a far-reaching Congressional response to the financial crisis that rocked the economy."[4] The Wall Street Journal wrote that "the country's largest banks are emerging as the biggest losers in Congress's effort to overhaul the rules of the road for financial markets."[5]

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[1] Wall Street Reform and Consumer Protection Act of 2009 sponsored by Congressman Barney Frank, passed by the House on December 11, 2009; Roll Call vote 968

[2] Roll Call vote 968 on H.R. 4173, The Wall Street Reform and Consumer Protection Act of 2009

[3] "House Votes 223 to 202 to Approve Sweeping Bill to Overhaul Financial Regulatory System," The Washington Post, December 12, 2009

[4] "House Approves Tougher Rules on Wall Street," New York Times, December 12, 2009

[5] "Financial Bill Hits Big Banks Hardest," Wall Street Journal, December 8, 2004